# Sources of Change in Federal Government Transfer Payments to Persons, 1970-81

 $\mathbf{I}_{ ext{RANSFER}}$  payments to persons by the Federal Government are income payments, generally in monetary , form, for which no current services are rendered.1 For a variety of reasons that will be discussed in this article, the increase in these payments accelerated in about 1970; from 1970 to 1981, they increased more than fourfold, from \$61 billion to \$281 billion (table 1). Their annual rate of growth of 15 percent was considerably higher than that of total Federal Government expenditures (12 percent) and total personal income (10 percent), of which they are components. As percentages of both, transfer payments rose sharply from 1970 to 1975. Subsequently, they leveled off at approximately 41 percent of total expenditures and fluctuated around 11 percent of total personal income.

Table 1.—Pederal Government Transfer
Payments to Persons

	Billione of dollars	Percentagy of total Federal Government expenditions	Pay- centage of person- al knoome
1970. 1971. 1972. 1973. 1974.	61.3 72.7 80.5 93.3 114.5 146.3	80.0 32.9 33.0 35.3 38.5 41.0	7,6 8,4 8,5 8,9 9,5 11,6
1976 1977 1978 1978 1979 1979 1990	158.8 169.6 181.8 205.0 248.2 250.9	4L8 493 493 493 493 493	11.4 11.0 10.5 10.5 11.4 11.6

In the national income and product accounts (NIPA's), there are two components of Federal transfer payments; to persons and to foreigners. This article deals only with the former, which is detailed in NIPA table 3.11.

The growth in the level and the relative size of transfer payments can be attributed to several sources: (1) automatic cyclical effects, (2) automatic inflation effects, and (3) legislation and other factors. Automatic cyclical effects arise from the responsiveness of several transfer programs to the level of unemployment.2 Changing unemployment causes the number of beneficiaries or the payments per beneficiary to change automatically for such transfers as regular and extended unemployment benefits; oldage, survivors, and disability insurance (OASDI) benefits; food stamps; and veterans readjustment benefits. Changes in transfer payments attributable to cyclical effects tend to be offsetting over time-rising during downturns and falling during upturns.

Automatic inflation effects arise from the response of programs to changes in the general level of prices. Indexed programs—those that are linked by legislation to changes in a price index—include OASDI, railroad retirement benefits, military retirement benefits, Federal civilian retirement benefits, workers' compensation for Federal employees (FECA), coal miners' disability and survivor

benefits (black lung program), food stamps, supplemental security income (SSI), and veterans pensions and survivor benefits. Nonindexed inflation-sensitive programs—those that automatically change with changes in prices but are not linked by legislation to a specific price index—include unemployment benefits and medicare. Unlike the cyclical effects, which tend to be offsetting, the inflation effects tend to be cumulative; current benefits levels reflect not only the most recent inflation adjustment, but also the inflation adjustments of the past.

Legislative changes, in addition to introducing and eliminating programs, affect the number of beneficiaries or benefits per beneficiary in ongoing programs. The distinction between this source of change, on the one hand, and automatic cyclical effects and automatic inflation effects, on the other, is that legislative changes are discretionary actions. For example, major social security benefit increases were legislated prior to the beginning of the automatic indexing of the program in 1975.

Several other factors may affect transfer payments. Demographic changes affect programs with age-sensitive eligibility requirements, such as social security and medicare. Noncyclical growth in real wages affects programs with wage-sensitive benefits levels, such as unemployment benefits. Also, the willingness of eligible beneficiaries to apply for benefits may change with the degree of public acceptance of the programs.

The next section of the article presents an overview of the sources of change in transfer payments. The final section describes each major program.

<sup>2.</sup> For a detailed description of the cyclical responsiveness of individual programs, see Frank de Leeuw, Thomas M. Holloway, Darwin G. Johnson, David S. McClain, and Charles A. Waite, "The High-Employment Budget: New Estimates, 1955-80," Sunvay or Cornert Budget: New Estimates, 1955-80," Sunvay or Cornert Budgets ("Sensitive of Federal Expenditures to Unemployment," Public Finance Quarterly, vol. 9, no. 2 (January 1981): 5-21.

<sup>8.</sup> For a detailed description of the inflation sensitivity of individual programs, see U.S. Congress, Sanata, Committee on the Budget, Indexation of Federal Programs, by Congressional Research Service (Washington, D.C.: U.S. GPO, 1981).

#### The sources of change: overview

Table 2 and chart 10 show changes in transfer payments and estimates of automatic cyclical effects (cycle-induced changes), automatic inflation effects (inflation-induced changes), and changes due to legislation and other factors. The cycle-induced changes have increased transfer payments during cyclical downturns, and have decreased them during recoveries.4 The two periods with marked cycle-induced increases in transfer payments over several quarters were during the 1974-75 recession and the 1980 recession. The long period of cycle-related decreases in transfer payments from the fourth quarter of 1975 to the second quarter of 1979 reflects steadily declining unemployment rates during the period.

Inflation-induced changes have increased transfer payments during every quarter of the 1970's and 1980's, reflecting the continuous upward movement in prices during the period. Sharp upward movements are

5. The procedures to estimate the inflation-induced changes are shown below. For each program, letting Nathe number of beneficiaries, Rareal benefits per beneficiary, and Pas price index appropriate to the program, total benefits by program, B, are:

N-NPP

Changes in benefits can be factored as follows:

AB - A (NRP)

 $\begin{array}{l} = N_{-1}R_{-1}\Delta P + P\Delta(NR) \\ = N_{-1}R_{-1}\Delta P + P_{-1}\Delta(NR) + \Delta P\Delta(NR) \end{array}$ 

The N<sub>-1</sub>R<sub>-1</sub>  $\Delta$ P term is the inflation-induced change in the program given previous benefits levels. The  $\Delta$ P  $\Delta$ NR term is the interaction of inflation-induced changes and changes in real benefits levels during the current quarter. In this article, the interaction term is attributed to inflation effects, although this is not the only possible interpretation. In any case, the quantitative affects of the interaction term are small. Summing these two terms gives an estimate of the inflation-induced change in the program equal to B  $\Delta$ P. This approach to estimating the inflation-induced change by program is consistent with published estimates of inflation-induced changes in high-employment expenditures. See Frank de Leeuw and Thurms M. Hollowsy, "The High-Employment Budget: Revised Estimates and Automatic Inflation Effects," Sunvey 62 (April 1962): 32

particularly pronounced beginning with the introduction of indexing to OASDI, SSI, and railroad retirement in the third quarter of 1975, and continuing with inflation adjustments to these programs in the third quarter of each subsequent year. The large effects in the third quarters of 1979, 1980, and 1981 are due to high inflation rates during the periods upon which the inflation adjustments are based and to the increased size of the adjusted programs.

Changes in transfer payments attributable to legislation and other factors are calculated as the residual of changes in total personal transfer payments less cycle-induced changes and inflation-induced changes. These changes show two different patterns. During the 1970-75 period, the changes were very volatile; during 1976-81, the changes were relatively stable. The volatility of the changes in the 1970-75 period is primarily due to legislated social security benefit increases. In addition, the changes in 1975 included a one-time payment under the Tax Reduction Act of 1975 and legislated temporary unemployment benefits. The stability of the changes in the latter period occurs after the importance of indexing increased, suggesting that indexing has replaced some of the tendency to legislate benefit increases. The relatively sharp increase in the third quarter of 1980 was due to small benefit increases in a number of programs; there was no major change in any one program.

The sources of change in transfer payments are cumulated in chart 11.5 Of the total change in the level of transfer payments through the fourth quarter of 1981 of \$242 billion, \$116 billion, or 48 percent, was related to automatic inflation effects; \$13 billion, or 6 percent, was related to automatic cyclical effects; and \$113 billion, or 47 percent, was related to leg-

islation and other factors. The automatic effects of inflation on the levels of transfer payments have increased sharply since 1975, while the levels associated with legislation and other

Table 2.—Sources of Change in Federal Government Transfer Payments to Persons (Billion of dollars, quarters at materally adjusted annual recent

rates										
	<u> </u>	다	ange due	to						
Year and quarter	Total chan <b>g</b> é	Auto- nacic cyclical offects	Auto- metic infle- cion effects	Legiste- tion and other factors						
1970 1871 1872 1873 1874	10.7 11.4 7.8 12.8 21.2 31.8	18.1 12.7 14.5 14.5 14.5 14.5 14.5 14.5 14.5 14.5	1000000	8.5 8.2 7.8 18.1 15.2						
1976	18.5 10.8 12.2 23.2 41.2 41.7	-19 -22 -34 -14 -18	9,8 8,8 10,0 14,2 22,1 26,3	51 4.2 5.9 12.8 6.6						
1970: 1	17 23 1 22	1144	20 24 4	1.0 8.7 -1.0 1.9						
1971: 11	1.2 7.0 1.0	3 1 1	1 1 1 1	.8 6,4 5 9						
1972 1 II IV	21 .l Ll 10.4	L 5 6 4	\$1.00 PM	2.0 5 1.1 10.5						
1978: L	1.3 1.7 2.4 2.4	-4 -2 -2	4 4 7 5	J.6 J.S J.D 2.0						
1974: 1 20 11: 11:	7.6 7.1 6.8 6.8	4 5 2.0	12 14 15	6.9 8.9 4.7 3.3						
157& 1 1 1V	9.7 13.8 3.9 1.4	44 25 2 -1.1	L6 .8 6.9 1.0	15 12 -40 16						
1976: 1	32 6 63 23	-14 7 1 1	11 66 8	3.8 -1.0 						
1977; [	24 2 59 11	-4 -11 -11 -2	.8 L3 6.1 L2	20						
1978: 11	1.9 .1 82 3.5	-18 -1.1 -4 -7	.8 1.0 7.3 1.7	2.3 1.3 2.8						
1976 1	42 47 158 54		12   14   12.1   2.5	3.0 8.8 8.8 2.8 2.8						
1988; 	7.6 7.5 28.3 3.6	1.1 4.3 3.0 .1	1.8 2.4 18.7 3.2	4,9 8,6 5,5						
1081	\$7 \$1 50 60	-,7 -,8 -,8 2.8	2,7 8,5 17,8 1,7	1.7 1.2 0 5						

Cycle-induced changes in transfer payments are measured using procedures developed in estimating the high-employment budget. In estimates of the highemployment budget, cyclically sensitive expenditure programs are adjusted to levels consistent with the high-employment unemployment rate—approximately 4.1 percent since 1975. Expenditure adjustments—diffarences between program levels under actual conditions and under high-employment conditions—reflect the cycle-induced dollar levels of the programs resulting from the deviation of the actual unemployment rate from the high-employment unemployment rate. Changes in these expenditure adjustments reflect changes in the programs attributable to cyclical changes. The specific procedures for estimating the expenditure adjustments by program are discussed in de Leeuw, et al., "High-Employment Budget: New Estimates, 1955-80," pp. 20-21, 41-48.

6. The procedures to estimate the inflation-induced

<sup>6.</sup> The cumulation of the estimated changes in transfer payments attributable to automatic inflation effects, automatic cyclical effects, and legislation and other factors is not a clear indication of the affects of these sources of change on the current level of transfer payments. In each quarter, these changes are calculated given the initial conditions at that time. Because the initial conditions depend on all of the earlier changes in the programs, not just changes attributable to each source depend in part on the past history of the other sources. For this reason, estimates of the effects of these sources of change on current program levels must be interpreted cautiously.

factors show much slower growth than during the 1970-75 period.

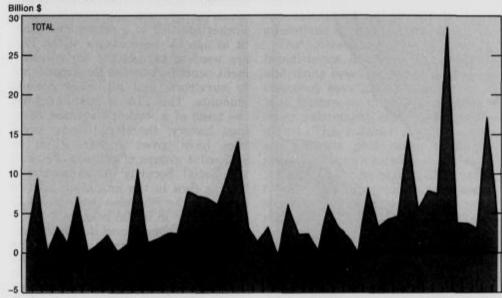
Growth in transfer payments was broadly distributed across the major transfer programs. The contribution of these major programs to the growth of transfer payments is discussed next.

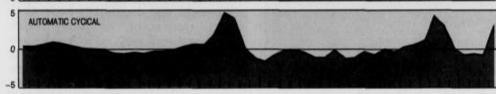
### Major transfer payments programs

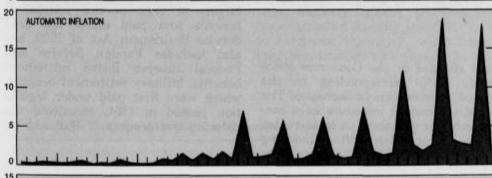
The major Federal Government programs under which transfer payments to persons are made may be placed in five categories: (1) social security (excluding medicare); (2) other retirement and disability programs,

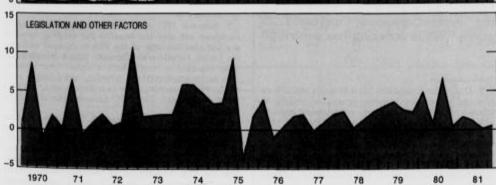
**CHART 10** 

## Sources of Change in Transfer Payments to Persons









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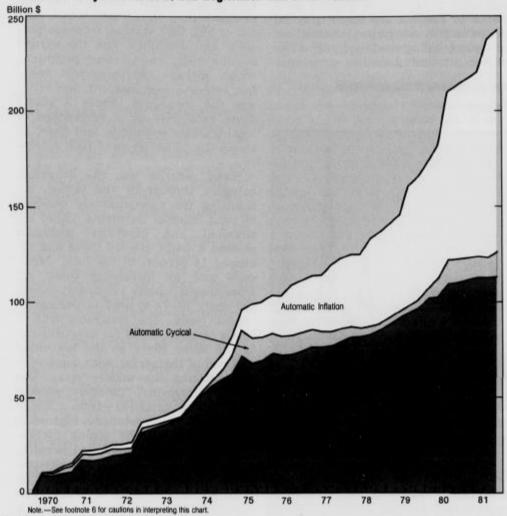
which consist of Federal civilian retirement, military retirement, railroad retirement, FECA, and the black lung program; (3) medicare; (4) programs with a needs test, which consist of SSI, food stamps, veterans pensions and disability, and the earned income credit; and (5) other programs, which include unemployment benefits, veterans readjustment, and veterans life insurance. Table 3 shows these categories as a percentage of total transfer payments, and chart 12 shows the dollar levels of each category.

Social security was the dominant category throughout the period, accounting for approximately one-half of total transfer payments. Other retirement and disability programs showed a slight upward trend and averaged 14 percent of the total. Medicare took an increasing share, up from approximately 11 percent during the early 1970's to over 14 percent in recent years. The programs with a needs test accounted for approximately the same share at the beginning and end of the period, with some variation during the middle years. The "other programs" category showed considerable variation-from a low of 10 percent of the total to a high of 20 percent-due to the strong cyclical sensitivity of unemployment benefits.

Social security.—Social security provides monthly benefits to insured retired and disabled workers, and their dependents or survivors. Provision of retirement benefits began with the enactment of the Social Security Act in 1935; dependent and survivors benefits with the Social Security Amendments of 1939; and disability benefits with the Social Security Amendments of 1956. Social security benefits were paid to 36 million beneficiaries in 1981, and amounted to \$139 billion (table 4).

The \$107 billion increase in social security benefits since 1970 can be attributed to the steady growth in the age-eligible population (over age 62), legislated benefit increases, automatic cost-of-living adjustments (COLA's) to benefits through indexing, and rising initial benefits. The growth in the age-eligible population is the primary cause of the nearly 10 million increase in the number of beneficiaries since 1970. Over one-half of these additional beneficiaries began receiving

## Cumulation of Change Attributable to Automatic Inflation Effects, Automatic Cyclical Effects, and Legislation and Other Factors



U.S. Department of Commerce, Bureau of Economic Analysis

82-10-11

benefits through early retirement (i.e., between the ages of 62 and 64).7

The benefits per social security beneficiary were increased across-the-board twelve times during 1970-81. The first five increases were directly legislated benefit increases; the last seven were COLA's made under indexing provisions delineated in the Social Security Amendments of 1972, effective in 1975. The percentage increases in social security benefits are shown in table 5 along with the per-

cent changes in the Consumer Price Index (CPI) corresponding to the period between benefit increases. The legislated benefit increases were considerably larger than price increases prior to indexing; after indexing began in 1975, the adjustments to benefits were generally smaller than the contemporaneous increases in prices. While indexing has contribut-

ed a large amount to the dollar levels of social security, it is possible that benefit increases might have been even larger in the absence of indexing.

Although legislated actions and automatic COLA's are responsible for most of the increase in benefits per social security beneficiary, the calculation of the initial benefit is also a factor. Initial benefits depend on the primary insurance amount (PIA), which is the amount payable to a worker entitled to a retirement benefit at age 65. Percentages of the PIA are used in calculating early retirement benefits, benefits for dependents or survivors, and all other benefit amounts. The PIA is calculated on the basis of a worker's covered earnings history; therefore, rising earnings have given higher PIA's to successive groups of retirees. Prior to the Social Security Amendments of 1977, a flaw in the procedure used to calculate the PIA also contributed to the increase in initial benefits.9

Other retirement and disability programs.-The five programs in the other retirement and disability category paid benefits of \$40 billion in 1981. Three programs that cover both retirement and disability-Federal civilian retirement, military retirement, and railroad retirement-provide monthly benefits to retired or disabled workers, or their survivors. Federal civilian retirement consists largely of Civil Service retirement benefits first paid under the Civil Service Retirement Act of 1920, but also includes Foreign Service and Federal Reserve Board retirement benefits. Military retirement benefits, which were first paid under legislation passed in 1861, constitute the oldest major program. 10 Railroad re-

<sup>7.</sup> Between December 1970 and December 1978, the number of beneficiaries increased by 8.4 million. Of the 8.4 million, 5.1 million were retired-worker beneficiaries, of which 5.0 million began receiving benefits through early retirement. It is assumed that early retirement was as prevalent among the additional beneficiaries from December 1978 to December 1981. Social Security Administration, Social Security Bulletin: Annual Statistical Supplement, 1980, p. 156.

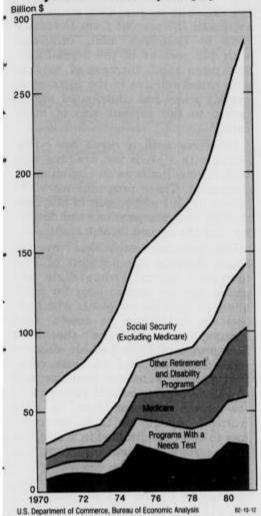
<sup>8.</sup> Under the procedures used to index social security and most other indexed programs, benefit increases will be less than the contemporaneous increases in prices during accelerating rates of price increase, and more than contemporaneous price increases during periods of decelerating rates of price increase. This difference occurs because the adjustment to benefits lags the change in the price index used to index the program. For example, social security benefits are adjusted in July of the current year on the basis of the change in the CPI from the first quarter of the previous year to the first quarter of the current year.

<sup>9.</sup> Between 1975 and 1978, inflation automatically increased not only the benefits per existing beneficiary but also the ratio of the PIA to covered earnings for future beneficiaries. Because future beneficiaries were expected to receive both a higher level of earnings partly attributable to inflation, and a higher ratio of the PIA to earnings due to inflation, their benefits were overindexed. The 1977 Amendments eliminated this flaw.

<sup>10.</sup> Legislation passed August 3, 1861 authorized retirement benefits for officers who retired after 40 years of service. This legislation also established a disability retirement system. A 1780 resolution of the Continental Congress first authorized survivors benefits. See U.S. Department of Defense, Military Compensation Background Papers: Compensation Elements and Related Manpower Cost Items—Their Purpose and Legislative Background (Washington, D.C.: U.S. GPO, 1976), pp. 145-175.

**CHART 12** 

**Federal Government Transfer** Payments to Persons by Category



tirement benefits were established by the Railroad Retirement Act of 1937.

Two programs-FECA and black lung benefits-cover only disability. FECA benefits, established by the Federal Employees Compensation Act of 1916, are payments to Federal employees or their survivors for job-related disability or death. Black lung benefits, established under Title IV of the Federal Coal Mine Health and Safety Act of 1969, provide compensation to coal miners disabled by pneumoconiosis or to their survivors.

The growth in the number of beneficiaries in these five programs and rising benefits, primarily through indexing, have been the most important factors in the dollar growth of other retirement and disability programs. The number of beneficiaries and benefits paid under these pro-

grams are shown in table 4.

Federal civilian and military retirement, like social security, have grown partly due to demographic changesparticularly increases in the retirement-age population. These changes are a major reason for the near doubling in the number of beneficiaries of these two programs, although eligibility for military retirement occurs after 20 years of service regardless of the age of the individual. The number of railroad retirement beneficiaries has not changed substantially from the 1970 level because of a decrease in the level of employment in the railroad industry. FECA beneficiaries have increased steadily since 1970 due to increases in injury rates. Black lung beneficiaries rose sharply in the

Table 4.—Beneficiaries and Benefits of Federal **Government Transfer Payments Programs** 

Program	Benefic (milli		Benefits (billions of dollars)			
	1970	1981	1970	1981		
Social security (excluding medicare)	25.8	35.8	31.4	138.7		
Other retirement and disability programs:						
Federal civilian	1.0	1.8	3.0	18.2		
Military retirement Railroad retirement Workers'	1.0	1.4	3.2 1.7	14.0 5.3		
compensation for Federal employees (FECA)	1	.8	.1	.9		
Coal miners' disability and survivor benefits						
(black lung program)	.1	.4	.1	1.7		
Medicare 1	9.4	18.7	7.1	43.3		
Programs with a needs test:						
Supplemental security income						
(SSI) Food stamps Veterans pensions	6.8	22.4	1.1	6.6 10.1		
and survivor benefits	4.8	4.6	5.4	12.5		
Earned income credit 2				1.3		
Other transfer programs:						
Unemployment benefits	1.7	2.7	4.2	15.5		
Veterans life insurance	.5	.4	.8	1.3		
Veterans readjustment	1.5	1.0	1.2	1.9		

1. Number of beneficiaries reimbursed under supplementary

edical insurance.

2. Number of beneficiaries is not available for 1981.

first few years following the initiation of the program, then leveled off in 1974 to levels similar to those of the current program, as most eligible beneficiaries became enrolled.

Changes in benefits per beneficiary in these five programs are primarily related to inflation-induced changes through automatic COLA's. Four of the five programs-railroad retirement is the exception-have been indexed since 1970; railroad retirement benefits were indexed in 1975, at the same time as social security. Table 6 shows the percent change in benefits per beneficiary by year attributable to automatic COLA's for major indexed programs. The cumulative effect in dollars is large: A beneficiary receiving a \$100 Civil Service retirement or military retirement benefit early in 1970 would receive \$254 by the end of 1981; a beneficiary receiving a \$100 FECA or black lung benefit in early 1970 would receive \$235 or \$188, respectively; and a beneficiary receiving a \$100 railroad retirement

Table 3.—Composition of Federal Government Transfer Payments to Persons

		Perce	ntage of tra	nsfer payn	nents to pe	rsons
Year	Transfer pay- ments to persons (billions of dollars)	Social security (exclud- ing medi- care)	Other retire- ment and disabil- ity pro- grams	Medi- care	Programs with a needs test	Other transfer pro- grams
1970	61.3	51.2	13.3	11.5	10.7	13.3
1971	72.7	50.4	13.4	10.8	10.4	15.0
1972	80.5	50.9	13.9	10.7	10.3	14.2
1973	93.3	54.3	14.6	10.4	9.3	11.4
1974	114.5	50.3	14.0	10.9	12.7	12.1
1975	146.3	45.1	13.1	10.6	11.5	19.7
1976	158.8	46.9	13.6	11.6	11.7	16.5
	169.6	49.1	14.0	12.8	11.3	12.8
	181.8	50.3	14.5	13.7	11.1	10.1
	205.0	50.0	14.8	14.3	11.3	9.6
	246.2	48.2	14.4	14.5	10.9	12.1
	280.9	49.4	14.3	15.4	10.9	10.1

Table 5.- Increases in Social Security Benefits

Date benefit increase paid*	Porcent in- creme in benefit lavel	Porcent change in Con- suncer Price Index?
February 1979 February 1971 October 1972 April 1974 July 1974 July 1974	29.0 7.0 4.4	11.9 4.8 6.0 12.7 2.8 9.7
July 1970 July 1977 July 1978 July 1979 July 1980 July 1980	6.4 6.5 9.5 14.3 11.2	6.4 6.7 7.7 11.5 18.0 10.7

2. Benefit increases beginning with July 1975 are automatic indexed cost-of-living adjustments.

2. Percent change in the CPI corresponding to the period between benefit increases. After ladering began, these CPI percent increases are not the same as the broadly increases because the indexing procedures call for adjustments to base-fits on the basis of lagged price increases.

benefit in early 1975 would receive \$182.11 19 An additional factor affecting benefit levels is the initial benefit. The initial benefits of four of the five programs—black lung benefits are the exception—are sensitive to past earnings and have increased with increases in earnings.

Medicare.—Medicare, established by the Social Security Amendments of 1965, provides benefits for hospital care, physician's services, and other medical services. It consists of two parts: hospital insurance (HI) benefits and supplementary medical insurance (SMI) benefits. HI benefits cover part of the cost of inpatient facilities or home health services. SMI benefits pay part of the cost of services and supplies provided by physicians and at hospital outpatient facilities, and pays all of the cost of radiology, pathology, and home health services. Persons 65 or older and entitled to social security or railroad retirement,

beneficiaries of social security or railroad retirement disability, and certain renal disease patients are eligible for HI benefits automatically. Other persons 65 or older may receive HI benefits provided they voluntarily pay premiums. SMI is voluntary and available to all persons 65 or older and any other person entitled to protection under HI.

In 1981, medicare benefits amounted to \$48 billion with 28 million eligible beneficiaries (table 4). Under HI benefits, 7 million beneficiaries were reimbursed: under SMI benefits, 19 million beneficiaries were reimbursed.

The \$36 billion increase in medicare benefits since 1970 can be attributed to the increase in the number of beneficiaries, liberalization of program eligibility and coverage, and the impacts of inflation. The demographic factors that caused the increase in the number of social security beneficiaries are a primary cause for the substantial growth in the medicare caseload. HI coverage rose from 20 million in 1970 to 28 million in 1981. Most of this additional coverage was due to new social security beneficiaries. However, some of the expanded coverage occurred through the liberalization of the medicare program. For example, the Social Security Amendments of 1972 extended benefits to disabled individuals eligible for social security or railroad retirement disability benefits and to end-stage renal disease patients effective July 1, 1973.

Some part of the increase in benefit payments can be attributed to more advanced and comprehensive treatment methods. Also, the services covered by medicare have been expanded since 1970. For example, the Social Security Amendments of 1972 provided for coverage of physical therapy, speech pathology, chiropractor services (limited to treatment of the spine), and several other services. The Social Security Amendments of 1977 expanded coverage to include services in rural health clinics.

However, it is clear that a major factor in the increase in the level of benefit payments is the increase in payments per beneficiary. Increases in payments per beneficiary are primarily due to the sensitivity of the program to the price of medical care; rising prices will automatically increase benefit payments. Table 7 shows percentage changes in the CPI and the medical care component of the CPI. The medical care component increased 167 percent from December 1969 to December 1981, compared with 149 percent in the overall CPI. The more rapid increase of medical care prices relative to the increase in overall prices has contributed significantly to the current size of medicare. 18

Programs with a needs test.-Programs with a needs test are programs 🔻 with income limits as an eligibility requirement. These programs were \$31 billion in 1981 and consist of SSI, food stamps, veterans pensions and disability, and the earned income credit.

SSI benefits, established by the Social Security Amendments of 1972 to replace several Federal-State programs, are an income floor for aged, blind, or disabled recipients who have little or no income or assets. Food stamps, established by the Food Stamp Act of 1964, provide coupons redeemable for food at most retail food stores. Veterans pensions and disability provide benefit payments to low-income veterans over 65 with wartime service, or their survivors. and to veterans disabled in active military service, or their survivors. Veterans pensions are the element with a . needs test. The earned income credit, established by the Tax Reduction Act of 1975 and first paid in 1976, is received by low-income workers who maintain a household and claim dependent children as exemptions. The number of beneficiaries and benefits paid under these programs are shown in table 4.

The rising number of beneficiaries and benefits per beneficiary are responsible for the dollar growth in programs with a needs test. The number of SSI beneficiaries has changed very little from 1974—the first year of the program. The start of SSI is a major , reason for the sharp increase in 1974 in this category in level and as a percentage of transfer payments (table 3 and chart 12). The number of food " stamp beneficiaries more than dou-

<sup>11.</sup> FECA benefits are not induced in the same way for all beneficiaries. Benefits payable to short-term beneficiaries are linked to the Ceneral Schedule of Pederal Government employee salaries. The benefits payable to long-term beneficiaries are linked to changes in the CPJ. The estimated \$235 benefit shown is calculated for a long-term beneficiary.

<sup>12.</sup> Reilroad retirement benefits are of two types: Tier I benefits-bosed on the beneficiary's combined nulroed and social security carnings-and Tier II benefits-hased on the beneficiary's railroad industry sernings and service alone. Tier I benefits are indexed in the same way as social security benefits and underlie the \$182 benefit estimate shown. Tier II benefits are tied to Tier I benefits; they increased by 32.5 percent of the Tier I benefit increase. The first automatic Infintion adjustment to Tier II benefits was in 1977.

<sup>18.</sup> Hospital insurance deductibles and some medicare consurance emounts are also sensitive to inflation and provide some offset to the impacts of inflation on benefits per beneficiary.

Table 6.-Automatic Inflation Adjustments to Indexed Programs

	1981 program			Automatic inflation adjustment (percent)								=		
Program	level (billions of dollars)	Date of initial pay out	Price Index used	1971	1972	1973	1974	1975	1976	1977	1978	1879	L480	1981
Old-age, survivors, and disability insur- ages (OASDI).	139.7	1975:3	СР1	ner-:				8.0	6.4	5.9	6.5	9.9	14.8	11.2
Civil Service retirement	18.2	1965:4	CP1	10,4	4.8	6.1	\$2.1	7,8	10.8	4.8	4.0	2,0	14.8	12.4
Military retirement	14.9	1969:4	CP1	10.4	4.8	6.1	121	7.8	19.8	4.8	6.8	D.D	13.3	124
Relirond retirement 4	5.3	1975:3	œ					£.C	4.4	5.0	0.5	9.9	14-8	11-2
Coal rolepes' dispbility and pervices benefits (Block long program).	1.7	3973:1	General schedule of Federal salaries, GS-2 level.	6.0	6.6	Ŕ.I	4,8	5.8	6.0	4.8	7.1	6.5	0.5	9,1
Workers' compensation for Pederal one- playees (PECA):	.9	1986:4	CP7, general schodule	4.0	3.5	4.8	16.0	10.7	4.4	9.3	5.3	10.7	18.8	7.8
Ford stamps	10.1	1971:8	Thrifty food plan Index	1.9	3.7	<b>2</b> .B	<b>29.</b> 3	8.0	2.5	2.4	7.L	12:1	2.5	114
Supplemental security income (SSI)	8.9	1975:3	CP1				L	8.0	6.4	6.9	6.5	9.9	14.3	1178
Veterans peoplors and surviver bane- fils:	125	1979:8	см			·····		······				9.9	24.3	11.2

Nove.—CPI is Consumer Price Index for orden wage and clorical workers.

July to July changes.
 Percent changes are for Tier I matrood retirement teneficiaries.

3. Percent changes are for long term beneficiaries.

4. Percent changes are fer "Improved law" veterane penelone recipients.

Table 7.—Changes in the Consumer Price Index and Its Medical Care Component (Percent thought from December of praceding year)

	Alt (tems	Médical éére
1970 1971 1972 1973 1974 1975	5.5 3.4 3.4 8.8 12.0 4.8 6.8 9.4	1.3 4.8 6.2 12.4 9.9 10.1 8.8 8.9
1960	12.5 8.7	8.01 8.11

bled since 1970. The Food Stamp Act Amendments of 1971 established national eligibility standards and authorized free food stamps to the poorest beneficiaries. Subsequent legislation in 1973, 1977, and 1979 contributed to the sharp increases in the number of food stamp beneficiaries by liberalizing requirements for the receipt of food stamps. The number of beneficiaries is also sensitive to the level of unemployment. This sensitivity accounts for part of the sharp increase in the number of beneficiaries in 1975 and in 1980. The number of beneficiaries of veterans pensions and disability has remained relatively stable since 1970.

The benefits of SSI, food stamps, and veterans pensions and disability

are indexed (table 6.) Indexing for SSI is the same as that for social security. Food stamp benefits are inflation-adjusted to be consistent with the Thrifty Food Plan—a group of low cost foods considered by the U.S. Department of Agriculture to be nutritionally adequate for various household sizes. As the cost of the Thrifty Food Plan rises, food stamp benefits rise. Veterans pension beneficiaries consist of three groups: "old law" beneficiaries, "new law" beneficiaries, and "improved law" beneficiaries; only the last are indexed. Veterans disability payments are not indexed.

Indexing has been the only source of adjustment to SSI benefits per beneficiary. Legislation has contributed to the increase in veterans pensions and disability through periodic benefit increases and to the increase in food stamp benefits through modifications in the procedures used to calculate benefits. One modification in the calculation of food stamp benefits occurred in 1979 when legislation allowed a medical deduction for elderly and disabled beneficiaries. The modification increased benefits because, in calculating benefits, available income after deductions of allowed items and benefits vary inversely.

Other transfer programs.—Other transfer programs were \$28 billion in 1981, and consist of unemployment

benefits, veterans life insurance and readjustment benefits, and a number of small programs. The number of beneficiaries and benefits paid are shown in table 4. Since 1970, the dollar levels of these programs have been more variable than those of the other four categories, primarily because of the strong cyclical sensitivity of unemployment benefits. These benefits, which include State unemployment insurance benefits, railroad unemployment benefits, Federal employee unemployment benefits, and veterans unemployment benefits, are by far the largest program in the category.

Unemployment benefits, first paid under the Social Security Act of 1935, are temporary benefits to workers to offset part of wages lost due to involuntary unemployment. Since 1970, these benefits have fluctuated sharply with changes in the business cycle. Regular unemployment benefits are paid up to 26 weeks of unemployment; extended unemployment benefits were automatically paid for an additional 13 weeks during periods of high national unemployment until recent legislation eliminated the requirement that States automatically

<sup>14.</sup> Other small programs include payments to non-profit institutions, sid to students, and terminal leave pay for veterane.

provide extended benefits.15 Legislation also provided a temporary extension of benefits beyond 39 weeks with the Federal Supplemental Benefits (FSB) program and special benefits with the Supplemental Unemployment Assistance (SUA) program beginning in 1974. FSB provided an additional 26 weeks of unemployment benefits beyond regular and extended benefits; SUA provided 89 weeks of benefits to workers in industries not covered by unemployment insurance. FSB and SUA benefits ended in 1978. Table 8 shows the national unemployment rate and unemployment bene-

fits by category.

Table 8.—Unemployment Benefits by Category and the Unemployment Rate

	Uner					
	Total	Regular	Ex- tensied	Fasionel Supple- mental Benefits	Supplemental Unom- ployment Amish ance	Unemployment rete (par- cent) 1
1970	4,188 6,160 6,683 4,570 7,021 18,140	4,188 5,498 5,048 4,417 6,451 12,557	0 664 485 141 570 2,671	'521 '11 2,200	584	4.9 5.9 5.0 4.9 5.0 8.6
1976 1977 1978 1978 1979 1989	16,186 13,129 9,417 9,691 18,112 16,460	10,611 9,283 8,531 8,460 14,564 14,285	2,498 1,878 705 282 1,558 1,281	2,502 1,288 19	975 680 168	7.1 7.1 6.1 6.8 7.1 7.8

Unemployment as a percentage of the civilian labor force.
 Banefite paid in 1972 and 1978 were temperary extensions of benefits similar to Federal Supplemental Benefits.

The level of unemployment benefits per beneficiary is partly determined by the previous earnings of the beneficiary. To the extent that inflation has affected wages, unemployment benefits have increased as a result of inflation. However, as table 8 clearly indicates, the level of unemployment benefits primarily reflects the level of unamployment.

Veterans life insurance benefits, largely consisting of insurance authorized by the National Servicemen's Life Insurance Act of 1940, have steadily increased since 1970. Because the last new policy was issued in 1951, the number of outstanding poli-

cies will continuously decline and eventually cause a decline in benefit payments. However, in the short-run, benefits are expected to increase as existing policyholders' age and death benefit claims rise. Veterans readiustment benefits, beginning with a series of laws covering World War II veterans, are payments to veterans for education and training to assist in the successful reintegration into civilian Readjustment benefits rose sharply as a result of the Vietnam War to peak at \$5.1 billion in 1975, but declined sharply to \$1.9 billion in 1981. Readjustment benefits are expected to continue to decline as more veterans reach their delimiting date.

<sup>15.</sup> Nearly all extended unemployment benefits are paid under State unemployment insurance programs. Extended benefits began with the Federal-State Extended Unemployment Compensation Act of 1970. Until passage of the Omnibus Reconsiliation Act of 1981, effective September 1, 1981, all States paid extended benefits when the seasonally adjusted national insured unemployment rate was 4.5 percent or more during the most recent 12 weeks. This national trigger was off when the seasonally adjusted national insured unemployment rate was less than 4.5 percent for the most recent 13 weeks. When the national trigger was off, individual States enald pay extended benefits if their insured unemployment rate for the most recent 13 weeks was at least 4.0 percent and 120 percent of their rate during the corresponding period of the pre-ceding 2 years. The States could opt to substitute a 5.9 percent minimum rate. The Opinibus Reconciliation Act eliminated the national trigger and replaced the previous mandatory 4.0 percent State trigger with 5.0 percent, and the previous optional 5.0 percent State trigger with 6.0 percent. The adjustments to the State triggers becomes effective September 26, 1982.